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FISCAL IMPACT STATEMENT

LS 7383

BILL NUMBER: HB 1735

NOTE PREPARED: Jan 13, 2003

BILL AMENDED:

SUBJECT: Local Food and Beverage tax.

FIRST AUTHOR: Rep. Lytle

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that the fiscal body of a county, city, or town may adopt an ordinance to impose a 1% Food and Beverage Tax on retail transactions. The bill provides that the money collected from the tax may be used for the development and promotion of tourism or to finance capital projects.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Summary:* The Department of State Revenue administers, audits, and collects local food and beverage taxes. In 2001, the Department administered, audited, and collected the Food and Beverage Tax at approximately \$0.51 per \$100 of revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary:* The bill gives the fiscal body of a county, city, or town that has not already adopted the 1% Food and Beverage Tax, the option to adopt an ordinance to do so. (Six counties and five municipalities have already adopted the Food and Beverage Tax.) Upon adoption of an ordinance to the effect, the fiscal body would be required to send a certified copy of the ordinance to the Department of State Revenue.

If the Food and Beverage Tax is imposed, the county or municipality adopting the tax will receive monthly payments of the Food and Beverage Tax from the Treasurer of State on warrants issued by the Auditor of State.

Unit fiscal officers would be required to establish a Food and Beverage Tax Receipts Fund for revenue received from the Treasurer of State.

Explanation of Local Revenues: *Summary:* A local unit would be allowed to adopt an ordinance to implement the 1% Food and Beverage Tax. If a county, city, or town adopted an ordinance to impose the Food and Beverage Tax shortly after the July 1, 2003 effective date, the earliest such a unit could begin to receive revenue would be approximately September 2003. If every county that does not currently impose the 1% Food and Beverage Tax were to adopt the tax shortly after July 1, 2003, the estimated combined revenue for the 86 counties that have not adopted the tax would be approximately \$12.1 M (one-quarter of a complete year) in CY 2003 and \$49.3 M in CY 2004.

If all cities and towns were to adopt the Food and Beverage Tax on July 1, 2003, the estimated revenue would be \$18.1 M (one-quarter of a complete year) in CY 2003 and \$74.7 M in CY 2004. Currently Brownsburg, Mooresville, Nashville, Plainfield, and Shipshewana have adopted the Food and Beverage Tax. In CY 2004, these units are projected to collect \$1.5 M in Food and Beverage Tax revenue. This amount subtracted from the CY 2004 estimate above would lower the estimated revenue to cities and towns to \$73.2 M for CY 2004.

Background: Estimation methodology of Food and Beverage Taxes takes into account the following factors: total food and beverage sales in the county in CY 1997 adjusted to reflect sales of prepared foods (such as those sold at a grocery deli) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment is added to establish a CY 1997 baseline for the county. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%) and FY 2002 (2%) to reach a base for FY 2002. Projected years from FY 2003-2005 were grown using the state Sales Tax estimated growth rates from the December 18, 2002 state revenue forecast. These growth rates include the effects of raising the state sales tax rate from 5% to 6% under HEA 1001(ss)-2002. Removal of the effects of the increased sales tax rate yields projected growth rates of 4.2% in FY 2003, 4.3% in FY 2004, and 4.9% in FY 2005.

On an aggregate level, all cities and towns in Indiana are generally assumed to account for 95% of total food and beverage sales. This percentage is applied to the baseline for all counties, including those that currently impose the Food and Beverage Tax.

(NOTE: The CY 2003 and 2004 estimates assume all counties, cities and towns would adopt the tax shortly after the July 1, 2003 effective date. Actual revenue impact per calendar year would depend on local action.)

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: All local units of government adopting the 1% Food and Beverage Tax under the bill.

Information Sources: Department of State Revenue; U.S. Census Bureau.

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